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Introduction

The objective of the Deposit Insurance Corporation of Ontario's Risk Assessment Framework (Framework) is to provide an effective process to assess the safety and soundness of Ontario credit unions and caisses populaires. This is achieved by evaluating an institution's risk profile, financial condition, risk management processes, and compliance with applicable laws and regulations. DICO considers it important to ensure transparency in all of its processes and is publishing this document for the benefit of all stakeholders.

Developing risk assessment practices is a dynamic process. Continuing change in the financial markets has led DICO to review its existing practices to ensure that they remain effective. The review was carried out over an eighteen month period commencing in 2004. In recognition of the increased globalization of the financial industry and the need for harmonization of supervisory practices across jurisdictions, DICO considered the practices of a number of other provincial organizations including the federal Office of the Superintendent of Financial Institutions (OSFI). In revising its Framework, DICO has decided to adopt the model developed by OSFI and one that is being employed by both Saskatchewan and British Columbia credit union regulators and deposit insurers.

The Framework applies to all Ontario credit unions and caisses populaires regardless of size and leagues. It is currently being implemented and will be fine-tuned based on experience and consultation with member institutions. DICO will continue to refine its practices to ensure that they remain effective and efficient in a rapidly changing environment.

The principal benefits of the Framework are:

- better evaluation of risks through separate assessment of inherent risks and risk management processes;
- greater emphasis on early identification of emerging risks and system-wide issues;
- cost effective use of resources through a sharper focus on risk; and
- reporting of risk focused assessments to institutions.

Any suggestions by member institutions or other stakeholders for improvement of this process are welcome. Written comments should be sent to DICO by mail or e-mail to info@dico.com.
Key Principles

The following key principles form the basis of the Framework:

- The assessment of member institutions is conducted on a consolidated basis and includes an assessment of all material entities (subsidiaries, branches, or joint ventures).
- The exercise of sound judgment in identifying and evaluating risks in an institution is central to the effectiveness of the Framework. Work performed will be focused on clearly identified risks or areas of concern.
- The level and frequency of scrutiny will depend on the risk assessment of the institution.
- Institutions that are well managed relative to their risks will require less oversight.
- Not all areas within an institution need to be reviewed every year.
- Oversight will include reviews of major risk management control functions such as Financial Analysis, Compliance, Audits, Internal Control, Human Resources, Risk Management, Senior Management and Board of Directors.
- Communication of findings and recommendations to institutions will be timely. The degree of DICO involvement will commensurate with the risk profile of the institution.
- Ratings will be provided to and discussed with the member institution after each review.
- DICO will continue to rely on external auditors for the fairness of the financial statements and will use their work to modify the scope of its reviews to minimize duplication of effort.
- DICO will continue to carry out studies on a range of subjects which compare institutions to their peer groups to identify best industry practices for dealing with various levels of risk.
- DICO will share this information with member institutions' senior management and Boards of Directors so that they can ensure that their risk management processes are adequate.

Risk Assessment

The addition of a dynamic risk assessment process represents an important change to DICO's current CAMEL based assessment process. Risk assessment begins with identifying significant activities of an institution. The net risk in these activities is a function of the aggregate inherent risk offset by the aggregate quality of risk management. This evaluation is illustrated by the following equation:

\[
\text{Inherent Risk} \text{ mitigated by } \text{Quality of Risk Management} = \text{Net Risk}
\]
Risk Assessment Process

The following flowchart illustrates the Risk Assessment Process.

1. Significant Activities (SA)
2. Materiality
3. Inherent Risks by SA
4. Quality of Risk Management by SA (Governance + Control Environment)
5. Net Risk by SA
6. Relative Weighting
7. Overall Net Risk
8. Capital
9. Earnings
10. Composite Net Risk
**Significant Activities**

Significant activities are those activities that are material to operations and/or business strategies. Significant activities are identified from various sources including the member institution's organizational charts, strategic business plans, capital allocations, internal and external financial reporting. It is equally important and necessary to understand the environment and business profile of a member institution in order to determine its activities.

Sound judgment is applied in determining the significance or materiality of any activity in which the member institution is involved. The following is a list of significant activities which DICO has identified as prevailing in a credit union/caisse populaire:

- Cash management
- Liquidity/investment management
- Lending services
  - Personal lending
  - Mortgage lending
  - Commercial lending
  - Agricultural lending
- Strategic management
- Wealth management
- Technology
- Service delivery
- Other

These significant activities are described in Appendix "A". Any other activity deemed to be significant to a member institution, but does not fit into one of the above noted categories will be assessed and added to the risk profile of the credit union/caisse populaire.

**Materiality**

Materiality is a measure of the relative significance of a member institution's activities to the attainment of its business objectives and strategies. It is multi-dimensional, prospective and considers both qualitative and quantitative factors. Sound and informed judgment is critical in the determination of materiality. DICO will use 3 levels to rate materiality:

- Low
- Moderate
- High
The following are examples of criteria that may be used:

a. assets generated by the activity in relation to total assets (both on and off-balance sheet);
   - $X \leq 10\%$: (L)ow,
   - $10\% < X \leq 20\%$: (M)oderate,
   - $X > 20\%$: (H)igh

b. revenue generated by the activity in relation to total revenue;
   - $X \leq 10\%$: (L)ow,
   - $10\% < X \leq 20\%$: (M)oderate,
   - $X > 20\%$: (H)igh

c. net income before tax for the activity in relation to total net income before tax;
   - $X \leq 10\%$: (L)ow,
   - $10\% < X \leq 20\%$: (M)oderate,
   - $X > 20\%$: (H)igh

d. internal allocation of capital to the activity in relation to total capital - BIS II;
   - $X \leq 10\%$: (L)ow,
   - $10\% < X \leq 20\%$: (M)oderate,
   - $X > 20\%$: (H)igh

**Inherent Risk**

Inherent risk is intrinsic to a business activity and arises from exposure and uncertainty from potential future events. It is evaluated by considering the degree of probability and the potential size of an adverse impact on capital and earnings.

A thorough understanding of the environment in which the member institution operates and its various business activities is essential to effectively identify and assess inherent risk in those activities. DICO groups these risks into six categories for assessment purposes and are described in Appendix "B". These categories represent a broad classification of the risks that are generally applicable to financial institutions, and most risks can be considered within one of these categories, which are as follows:

- Credit risk
- Market risk
- Structural risk
- Liquidity risk
- Operational risk
- Strategic risk
Once significant activities have been identified, the level of inherent risk in each of those activities is assessed as low, moderate, or high. This assessment is made without considering the impact of risk mitigation through the member institution's risk management processes and controls. The quality of these factors is considered separately and combined with the inherent risk assessment to determine the net risk of each significant activity. This assessment is mainly qualitative and the levels are defined in Appendix "C".

**Valuation of Inherent Risk**

Inherent risks in an activity are the same across member institutions, provided that the activity characteristics are the same. Inherent risks are measured before risk mitigation but incorporate past risk mitigation efforts because those have shaped the current activity characteristics. In order to evaluate the inherent risk, DICO has developed a table of considerations for each significant activity, as indicated on Appendix "G". The considerations are a listing of events or issues which would or could have an impact on the significant activity within the risk categories. This list represents a substantial beginning of such an event listing but will be updated on a regular basis as the project matures. In the same manner, Appendix "H" shows a listing of considerations created to evaluate mitigating factors - quality of risk management.

**Quality of Risk Management**

The quality of risk management is evaluated for each significant activity. The quality of risk management is based on an evaluation of a member institution's current practices for each risk management control functions related to that activity. This evaluation is closely related to an assessment of a member institution's compliance with the requirements of By-Law #5 - Standards of Sound Business and Financial Practices.

The assessment of these practices is based on a sound understanding of significant activities, the risks inherent in each activity and the effectiveness of the member institution's processes or practices in mitigation of these inherent risks.
DICO has identified seven risk management control functions that may exist in a member institution and has grouped these control functions into two categories as follows:

- Corporate Governance
  - Board of directors
  - Senior management

- Control Functions
  - Compliance
  - Financial analysis
  - Human resources
  - Internal controls
  - Internal/external audit

These risk management control functions are described in Appendix "D". The presence and nature of these functions vary, based on size and complexity of the institution.

Control functions for a given activity are primarily responsible for the day-to-day management. These functions ensure that policies, processes, control systems, staff levels and experience are sufficient and effective in compensating for the risks inherent in the activity. The organizational structure and controls must be effective in preventing and detecting material errors or irregularities in a timely manner.

The degree to which a member institution's operational management and controls for a given activity need to be reviewed depends on the assessment of the effectiveness of the member institution's risk management control functions. In circumstances where control functions are not available, DICO may look to other functions, within or external to the institution, that handle these responsibilities.

Where independent reviews of operational management and controls have not been carried out or where independent risk management control functions are lacking, DICO may, under normal circumstances, make appropriate recommendations or direct that appropriate work be done.

The quality of the risk management processes is assessed as strong, acceptable, needs improvement, weak and these are described in Appendix "E".
**Net Risk**

The net risk for significant activity is a function of the aggregate level of inherent risk offset by the aggregate quality of risk management. The aggregate levels are based on judgments that consider all of the inherent risk ratings and the quality of risk management assessment for the activity.

Net risk for a significant activity is rated low, moderate or high as illustrated in the chart below:

<table>
<thead>
<tr>
<th>Aggregate Quality of Risk Management for Significant Activity</th>
<th>Aggregate Level of Inherent Risk for significant activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>Low</td>
</tr>
<tr>
<td>Acceptable</td>
<td>Low</td>
</tr>
<tr>
<td>Needs Improvement</td>
<td>Moderate</td>
</tr>
<tr>
<td>Weak</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Low</td>
</tr>
</tbody>
</table>

For example, the residential mortgage activity of a member institution may be evaluated as having a medium aggregate level of risk arising from a combination of medium credit risk, low liquidity risk and medium operational risk. However, net risk for the activity may be rated as low due to mitigation by a strong aggregate quality of risk management resulting from strong operational management, strong internal audit, acceptable risk management and acceptable board governance.

**Risk Matrix**

A Risk Matrix is used to record the assessment of inherent risks, the quality of risk management, and the resulting net risk evaluation for each significant activity. The Risk Matrix includes a determination of an Overall Rating of Net Risk and the Direction of Risk. In arriving at the Overall Rating of Net Risk, the relative significance or materiality of each activity is considered. This is rated low, moderate, or high. This assessment ensures that an activity with low materiality but high net risk does not skew the Overall Rating. DICO's efforts will be focused on material high risk activities.
An Overall Rating for each risk management control function is also included in the Risk Matrix.

A sample of DICO's Risk Matrix is shown in Appendix "F".

The Risk Matrix includes a **Composite Rating** and a **Direction of Composite Risk** for the institution. These could be affected by factors such as capital and earnings. Accordingly, the assessment includes a review of the quality, quantity, and availability of externally and internally generated capital. In reviewing an institution's ability to generate capital internally, profitability is considered both on a consolidated and unconsolidated basis if appropriate. An appropriate time frame for the **Composite Rating** and the **Direction of Composite Risk** is also included.

While the Risk Matrix is a convenient way to summarize the conclusions of risk assessment, it is supported by documentation of the analysis and the rationale for the conclusions.

A report outlining review findings and risk assessment ratings is an important piece of communication provided by the DICO to credit union management and board. Individual credit union assessments and ratings are shared only with that credit union board and management.

Aggregate system information of risk assessment summaries and risk profiles compiled by the DICO will assist the DICO in identifying and assessing system risk and trends.

**Overall Net Risk**

The overall rating of net risk is simply the weighted average of net risk ratings for each significant activity evaluated.

Once the net risk for each significant activity has been assessed, a relative weighting is assigned to each activity. Weightings are based on the significance of the individual activity compared to the total activities of the member institution. These relative weightings are combined with the net risk for each significant activity to arrive at the overall net risk rating.

The overall net risk is rated as **low, moderate, above-average** or **high**. Assigning a relative weighting ensures that the overall net risk of an activity with low significance in comparison to other activities does not skew the overall net risk rating.
**Direction of Risk**

The direction of risk considers the current rating for the net risk in each significant activity and trends in inherent risk and risk management control functions. It is an estimation of net risk over a defined period of time and is a determining factor in developing monitoring strategies. The time horizon used is indicated in the risk profile. The direction of risk is assessed as decreasing, stable or increasing for each significant activity.

The direction of risk is also assessed for the credit union as a whole. This rating is considered in annual monitoring planning and may have an impact on monitoring, prevention and intervention activities.

**Direction of Net Risk**

The above assessments include a determination of the current direction of net risk. Direction of risk is assessed as decreasing, stable, or increasing over an appropriate time horizon for the institution. For example, the time horizon for a conglomerate may need to be much longer than for a smaller institution. The time horizon considered is indicated in each case.

**Composite Risk Rating**

The composite risk rating is an assessment of the institution's overall risk profile. It reflects DICO's assessment of the safety and soundness of member institutions. The rating aggregates the assessments of overall net risk for each of the member institution's significant activities, and considers capital and earnings.

Capital is a source of financial support that contributes to an institution's safety and soundness. It is a cushion to absorb unexpected losses and to provide a safety net for the institution. The objective of assessing Capital is to evaluate its adequacy and effectiveness of capital management policies, strategies and processes in the context of the risk profile of the member institution. Appendix "J" defines the role of capital and ratings.

The objective of assessing Earnings is to understand and assess the quality, quantity and volatility/sustainability of a member institution's earnings and how they contribute to Capital. Appendix "K" defines the role of earnings and ratings.

*This section of the RAF has not yet been concluded. We are in the process of gathering information and data.*
Composite risk rating is rated as **low, moderate, moderate-high** or **high**. The rating may be adjusted at any stage of the monitoring process due to significant events, new findings/observations, or changes in business activities and or economic conditions. Definitions of the Composite Risk Ratings are shown in Appendix "L".

**Risk Profile**

Central to the risk-based monitoring system is a credit union's risk profile. The risk profile provides an overall assessment of risk in a member institution. It is the level of risk identified in the risk profile that will drive our monitoring, prevention and intervention programs.

To develop and maintain a current risk profile for credit unions, the risk-based monitoring system incorporates ongoing review and evaluation of a standard package of credit union information. This ongoing monitoring component applies to all credit unions. DICO's Risk Profile Report for member institutions is as shown in Appendix "I".

The Risk Profile Report includes:

- a risk matrix
- an overview of the main business activities and strategies
- an assessment of the effectiveness of the inherent risks
- an assessment of the effectiveness of the risk management control functions
- an assessment of the adequacy of capital and earnings of the MI
- financial highlights

The risk profile of a member institution is established through risk assessment processes. Risk assessment begins with the identification of significant activities of a member institution. The net risk in each of these activities is a function of the aggregate inherent risk offset by the aggregate quality of risk management.
Appendix A

Significant Activities

Cash management: managing and controlling cash.

Liquidity/Investment management: employing (maximizing) excess assets not lent out.

Lending services: extension of money to a member, in the form of a loan, with the expectation of being repaid over a defined period with interest.

- Personal lending: extending money to a member or members for the purchase of service or goods not intended for commercial or agricultural use where the personal income is the primary source of repayment.
- Mortgage lending: extending money to a member or members for the purchase of real estate not intended for commercial or agricultural use where personal income is the primary source of repayment.
- Commercial lending: extending money to a member or entity for business purposes where business income is the primary source of repayment.
- Agricultural lending: extending money to a member or entity for the purpose of farming where the farming income is the primary source of repayment.

Strategic Management: ensuring business operations are planned, authorized, undertaken properly and managed.

Wealth Management: providing services for the purpose of preserving, managing and growing wealth over the lifetime of a member.

Technology: managing business and providing reporting on operations through people, information technology infrastructure, application systems, facilities, data and information.

Service delivery: offering financial products and services.

Other: any activity deemed to be significant to a specific credit union, and that does not fit into one of the above noted categories.
Appendix B

Risk Categories

Credit risk: arises from a borrower's inability or unwillingness to fully meet its on-and/or off-balance sheet contractual debt obligation.

Market risk: arises from changes in market rates or prices from activities in markets such as interest rates and foreign exchange, equity, commodity and real estate.

Structural risk: arises from movements in interest rates and the impact from timing differences in the repricing of on- and off-balance sheet assets and liabilities as they mature (fixed rate instruments) or are contractually repriced (variable rate instruments).

Liquidity risk: arises from a member institution's inability to provide cash or otherwise obtain the necessary funds, either by increasing liabilities or converting assets, to meet its on- and off-balance sheet obligations as they come due without incurring unacceptable losses or excess funding costs.

Operational risk: arises from implications in the performance of business functions or processes such as deficiencies or breakdowns in technology failures, weak internal controls, lack of business continuity plans, human errors, and dishonesty and natural catastrophes.

Strategic risk: arises from a member institution's inability to develop and implement proactive, appropriate business strategies, plans, decision-making, resource allocation and its inability to adapt to changes in the business environment.
Appendix C

Definition of Inherent Risk Ratings

**Low Inherent Risk:** Low inherent risk exists when there is a lower than average probability of an adverse impact on an institution's capital or earnings due to exposure and uncertainty from potential future events.

**Moderate Inherent Risk:** Moderate inherent risk exists when there is an average probability of an adverse impact on an institution's capital or earnings due to exposure and uncertainty from potential future events.

**High Inherent Risk:** High inherent risk exists when there is a higher than average probability of an adverse impact on an institution's capital or earnings due to exposure and uncertainty from potential future events.
Appendix D

Risk Management Control Functions

Corporate Governance: The process and structures to facilitate the direction, oversight and management of business affairs to enhance corporate performance, integrity and accountability to stakeholders.

- **Board of Directors:** responsible for providing stewardship, continual direction of business strategy and assessment of operations and management controls.

- **Senior management:** responsible for the planning, directing and controlling the board-approved strategic direction and business strategy and general operations of the member institution.

Control Functions: The processes, structures and resources used to plan, direct and control the day-to-day operations of the member institution business activities.

- **Compliance:** adherence to legislative requirements, standards of sound business practices, credit union policies, procedures, articles and by-laws.

- **Financial analysis:** the function within a member institution that performs an in-depth and meaningful analysis of operational results and effective timely reports to board and management to support and/or effect strategic and business decisions.

- **Human resources:** suitable capacity and the skills needed to achieve business strategy and plans.

- **Internal control:** measures taken to safeguard assets and human resources.

- **Internal/External audit:** independent examination of records and procedures by an employee (internal) or by an outsider (external).
Appendix E

Quality of Risk Management Ratings

**Strong:** The mandate, organization structure, resources, methodologies and practices of the Risk Management function meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Risk Management has consistently demonstrated highly effective performance. Risk Management characteristics and performance are superior to generally accepted industry practices. (e.g. OSV: All standards are met)

**Acceptable:** The mandate, organization structure, resources, methodologies and practices of the Risk Management function meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Risk Management performance has been effective. Risk Management characteristics and performance meet generally accepted industry practices. (e.g. OSV: 1 weakness)

**Needs Improvement:** The mandate, organization structure, resources, methodologies and practices of the Risk Management function generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution, but there are some significant areas that require improvement. Risk Management performance has generally been effective, but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Risk Management characteristics and/or performance do not consistently meet generally accepted industry practices. (e.g. OSV: 2 weaknesses; or 1 critical weakness)

**Weak:** The mandate, organization structure, resources, methodologies and practices of the Risk Management function are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Risk Management performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Risk Management characteristics and/or performance often do not meet generally accepted industry practices. (e.g. OSV: 3 weaknesses or more; or 1 critical weakness + 1 weakness)

**Note:** A critical weakness is defined as non-compliance with either the credit or investment standard, as determined by the OSV.
APPENDIX F
Risk Matrix

The risk matrix is used to record and summarize the assessment of inherent risks, the quality of risk management, and the resulting net risk evaluation for each significant activity. The risk matrix includes a determination of an overall rating of net risk, composite risk and the direction of risk for member institutions.

While a risk matrix is a convenient way to summarize the conclusions of risk assessment, it is supported by documentation of the analysis, review, and the rationale for conclusions and actions, if any to be taken. The following is DICO’s risk matrix:

<table>
<thead>
<tr>
<th>Significant Activities</th>
<th>Materiality</th>
<th>Credit</th>
<th>Market</th>
<th>Structural</th>
<th>Liquidity</th>
<th>Operational</th>
<th>Strategic</th>
<th>Aggregate</th>
<th>Board of Directors</th>
<th>Senior Management</th>
<th>Compliance</th>
<th>Financial Analysis</th>
<th>Human Resources</th>
<th>Internal Controls</th>
<th>Audits</th>
<th>Aggregate</th>
<th>Net Risk</th>
<th>Direction of Net Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Management</td>
<td>L</td>
<td>L</td>
<td>L</td>
<td>L</td>
<td>M</td>
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<tr>
<td>Liquidity/Investment</td>
<td>M</td>
<td>H</td>
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<td>Personal Lending</td>
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<td>Mortgage Lending</td>
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<td>Commercial Lending</td>
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<td>Agricultural Lending</td>
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<td>Strategic Management</td>
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<td>Wealth Management</td>
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<td>Service Delivery</td>
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<tr>
<td>Other</td>
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<td>Overall Risk Rating</td>
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<td>OVERALL NET RISK</td>
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<td>Composite Risk Rating</td>
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</tbody>
</table>

Highlighted areas in the inherent risk categories indicate predominant activities which influence the overall risk rating for each inherent risk category.
**1) MATERIALITY**

Materiality is a measure of the relative significance of a member institution’s activities to the attainment of its business objectives and strategies. It is multi-dimensional, prospective and considers both qualitative and quantitative factors. Sound and informed judgment is critical in the determination of materiality.

L = low; M = moderate; H = high

**2) INHERENT RISK**

**L=Low**

Low inherent risk exists when there is a lower than average probability of an adverse impact on an institution’s capital or earnings due to exposure and uncertainty from potential future events.

**M=Moderate**

Moderate inherent risk exists when there is an average probability of an adverse impact on an institution’s capital or earnings due to exposure and uncertainty from potential future events.

**H=High**

High inherent risk exists when there is a higher than average probability of an adverse impact on an institution’s capital or earnings due to exposure and uncertainty from potential future events.

**3) QUALITY OF RISK MANAGEMENT RATINGS**

**S=Strong**

The mandate, organization structure, resources, methodologies and practices of the Risk Management function meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Risk Management has consistently demonstrated highly effective performance. Risk Management characteristics and performance are superior to generally accepted industry practices. (e.g. OSV: All standards are met)

**A=Acceptable**

The mandate, organization structure, resources, methodologies and practices of the Risk Management function meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Risk Management performance has been effective. Risk Management characteristics and performance meet generally accepted industry practices. (e.g. OSV: 1 weakness)

**N=Needs Improvement**

The mandate, organization structure, resources, methodologies and practices of the Risk Management function generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution, but there are some significant areas that require improvement. Risk Management performance has generally been effective, but there are some significant areas where effectiveness needs to be improved. Risk Management characteristics and performance meet generally accepted industry practices. (e.g. OSV: 2 weakness or 1 critical weakness.)

**W=Weak**

The mandate, organization structure, resources, methodologies and practices of the Risk Management function are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Risk Management performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Risk Management characteristics and/or performance often do not meet generally accepted industry practices. (e.g. OSV: 3 weaknesses or more; or 1 critical weakness + 1 weakness)
# APPENDIX G

## ISSUES TO CONSIDER WHEN RATING THE INHERENT RISK LEVELS BY SIGNIFICANT ACTIVITY

<table>
<thead>
<tr>
<th>Category</th>
<th>Definition</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CREDIT</strong></td>
<td>Def: arises from a borrower's inability or unwillingness to fully meet its on- and/or off-balance sheet contractual debt obligation</td>
<td><em>N/A</em></td>
</tr>
<tr>
<td><strong>MARKET</strong></td>
<td>Def: arises from changes in market rates or prices from activities in markets such as interest rates and foreign exchange, equity, commodity and real estate</td>
<td><em>to what extent would changes in foreign exchange rate or interest rate impact cash holdings</em></td>
</tr>
<tr>
<td><strong>STRUCTURAL</strong></td>
<td>Def: arises from movements in interest rates and the impact from timing differences in the repricing of on and off-balance sheet assets and liabilities as they mature (fixed rate instruments) or are contractually repriced (variable rate instruments)</td>
<td><em>ensuring that there are steady and sufficient funds coming in for regulatory and operational obligations.</em></td>
</tr>
<tr>
<td><strong>LIQUIDITY</strong></td>
<td>Def: arises from a member institution's inability to provide cash or otherwise obtain the necessary funds, either by increasing liabilities or converting assets, to meet its on and off-balance sheet obligations as they come due without incurring unacceptable losses or excess funding costs</td>
<td><em>control of offsite cash, quantity, quality, location of ATMs</em></td>
</tr>
<tr>
<td><strong>OPERATIONAL</strong></td>
<td>Def: arises from implications in the performance of business functions or processes such as deficiencies or breakdowns in technology failures, weak internal controls, lack of business continuity plans, human errors, and dishonesty and natural catastrophes</td>
<td><em>growth, profit, pricing</em></td>
</tr>
<tr>
<td><strong>STRATEGIC</strong></td>
<td>Def: arises from a member institution's inability to develop and implement proactive, appropriate business strategies, plans, decision-making, resource allocation and its inability to adapt to changes in the business environment.</td>
<td><em>growth, profit, pricing</em></td>
</tr>
</tbody>
</table>

**CASH MANAGEMENT**

*Definition:* managing and controlling cash.

- **Considerations:**
  - *N/A*
  - to what extent would changes in foreign exchange rate or interest rate impact cash holdings

**LIQUIDITY/INVESTMENT**

*Definition:* employing (maximizing) excess assets not lent out.

- **Considerations:**
  - potential consequence of not being able to fund loan demand due to long term investment commitments
  - same as above plus the market value of investments and types of investments held
  - are the investments matched and mature with similar deposit portfolio? what are the mix and maturities of investments? what is the spread? direction of interest rate is the MI borrowing funds? does the MI have the ability to use hedging products?
  - maturities of investments flexibility to divest without substantial penalties does the MI have a standby line of credit with its banker? does the MI have borrowing facility?
  - potential for someone to make investments for personal gains altering reports possibility & frequency of reporting errors possibility & frequency of human errors legal issues

**PERSONAL LENDING**

*Definition:* extending money to a member, in the form of a loan, with the expectation of being repaid over a defined period with interest.

- **Considerations:**
  - closed bond vs. open bond type of loans (LOC, term etc) regional location unemployment (sponsor company, local regional) unsecured vs. secured loans & type of security concentration loan costs delinquency
  - the potential risk in the value of bonds and marketable securities held as security for loans caused by changes in interest rates, market value, foreign exchange, equity, and commodity.
  - same as investments plus are the fixed rate assets matched with similar liabilities and maturities? are the variable rate assets and liabilities matched? what is the proportion of variable rate assets to fixed rate assets? what is the proportion of the non-interest earning assets and liabilities? pricing
  - funds generated from loan payments (unproductive loans) proportion of unused committed funds contingency planning (does the MI have agreements in place to divest itself of assets?) does the MI have standby line of credit facility? does the MI have borrowing capacity?
  - growth, profit, pricing projections new product development market

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*APPENDIX G*
<table>
<thead>
<tr>
<th></th>
<th>Credit</th>
<th>Market</th>
<th>Structural</th>
<th>Liquidity</th>
<th>Operational</th>
<th>Strategic</th>
</tr>
</thead>
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<tr>
<td>Definition: extending money to a member or members for the purchase of real estate not intended for commercial or agricultural use where personal income is the primary source of repayment.</td>
<td>Considerations: - see personal lending</td>
<td>Considerations: - the potential change in the value of securities for mortgage loans caused by fluctuations in market value of real estate and changes in interest rates</td>
<td>Considerations: - same as personal lending</td>
<td>Considerations: - same as personal loans</td>
<td>Considerations: - potential for someone to make fictitious loans for personal gains - altering reports and data easily - possibility &amp; frequency of reporting errors - possibility &amp; frequency of human errors - legal issues</td>
<td>Considerations: - growth - profit - pricing</td>
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<tr>
<td><strong>Commercial Lending</strong></td>
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<tr>
<td>Definition: extending money to a member or entity for business purposes where business income is the primary source of repayment.</td>
<td>Considerations: - see personal lending, plus loan syndication</td>
<td>Considerations: - the potential change in the value of securities held for the commercial loans caused by fluctuations in market value of real estate and bonds, commodities, securities, interest rates, foreign exchange</td>
<td>Considerations: - same as personal lending plus</td>
<td>Considerations: - same as personal loans plus</td>
<td>Considerations: - potential for someone to make fictitious loans for personal gains - altering reports and data easily - possibility &amp; frequency of reporting errors - possibility &amp; frequency of human errors - legal issues</td>
<td>Considerations: - growth - profit - pricing</td>
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<tr>
<td><strong>Agricultural Lending</strong></td>
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<tr>
<td>Definition: extending money to a member or entity for the purpose of farming where the farming income is the primary source of repayment.</td>
<td>Considerations: - see commercial lending plus potential damage caused by changes in legislation</td>
<td>Considerations: - see commercial lending</td>
<td>Considerations: - same as personal loans</td>
<td>Considerations: - same as commercial loans</td>
<td>Considerations: - potential for someone to make fictitious loans for personal gains - altering reports and data easily - possibility &amp; frequency of reporting errors - possibility &amp; frequency of human errors - legal issues</td>
<td>Considerations: - Growth - profit - pricing</td>
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<tr>
<td><strong>Strategic Management</strong></td>
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<tr>
<td>Definition: ensuring business operations are planned, authorized, undertaken properly and managed.</td>
<td>Considerations: - issues caused by changes in municipal, provincial and federal legislation</td>
<td>Considerations: N/A</td>
<td>Considerations: N/A</td>
<td>Considerations: N/A</td>
<td>Considerations: - mergers - amalgamations - dissolutions - new branch opening - competition - outsourcing</td>
<td>Considerations: - mergers - amalgamations - dissolutions - expansion (new branch) - competition</td>
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<tr>
<td><strong>Wealth Management</strong></td>
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<tr>
<td>Definition: provide services for the purpose of preserving, managing and growing wealth over the lifetime of a member.</td>
<td>Considerations: N/A</td>
<td>Considerations: N/A</td>
<td>Considerations: N/A</td>
<td>Considerations: N/A</td>
<td>Considerations: - does the MI have licensed personnel - compliance with legislated reporting requirements</td>
<td>Considerations: - reputation - legal &amp; regulatory</td>
</tr>
<tr>
<td>CREDIT</td>
<td>MARKET</td>
<td>STRUCTURAL</td>
<td>LIQUIDITY</td>
<td>OPERATIONAL</td>
<td>STRATEGIC</td>
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<tr>
<td><strong>TECHNOLOGY</strong>&lt;br&gt;Definition: managing business and providing reports on operations through people, information technology infrastructure, applications systems, facilities, data and information.</td>
<td>Considerations:  ● data integrity - would errors in loan calculation, statement and balances have an impact on the member's willingness to continue payments to the extent that this would alter the risk level</td>
<td>Considerations:  ● data integrity</td>
<td>Considerations:  ● data integrity</td>
<td>Considerations:  ● data integrity  ● system failures  ● capacity for growth  ● IT support/maintenance  ● delivery channels  ● security/confidentiality  ● management report generation, outsourcing</td>
<td>Considerations:  ● data integrity/availability/ reliability  ● reports generation  ● confidentiality  ● conversion adaptability  ● new products delivery</td>
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</tr>
<tr>
<td><strong>SERVICE DELIVERY</strong>&lt;br&gt;Definition: offering financial products and services</td>
<td>Considerations:  ● means available to the borrower to access products and services and would the absence of some of these alter the risk level of the MI  ● availability  ● telephone  ● fax  ● internet  ● security concerns</td>
<td>Considerations: N/A</td>
<td>Considerations: N/A</td>
<td>Considerations:  ● availability  ● telephone banking  ● fax  ● internet  ● security concerns  ● privacy/confidentiality  ● legal exposure  ● outsourcing</td>
<td>Considerations:  ● availability of service to member</td>
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<tr>
<td><strong>OTHER</strong>&lt;br&gt;DICO: divesting of assets or portions of assets.</td>
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</tbody>
</table>
# APPENDIX H

## ISSUES TO CONSIDER WHEN RATING THE QUALITY OF RISK MANAGEMENT

<table>
<thead>
<tr>
<th>GOVERNANCE</th>
<th>CONTROL ENVIRONMENT</th>
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<tbody>
<tr>
<td><strong>BOARD OF DIRECTORS</strong></td>
<td><strong>INTERNAL CONTROLS</strong></td>
</tr>
<tr>
<td>Definition: responsible for providing stewardship, continual direction of business strategy and assessment of operations and management controls.</td>
<td>Definition: Ensuring business operations are planned, authorized, undertaken properly and managed.</td>
</tr>
<tr>
<td><strong>SENIOR MANAGEMENT</strong></td>
<td><strong>AUDITS</strong></td>
</tr>
<tr>
<td>Definition: responsible for the planning, directing and controlling the board-approved strategic direction and business strategy and general operations of the member institution.</td>
<td>Definition: independent examination of records and procedures by an employee (internal) or by an outsider (external).</td>
</tr>
<tr>
<td><strong>COMPLIANCE</strong></td>
<td><strong>FINANCIAL ANALYSIS</strong></td>
</tr>
<tr>
<td>Definition: adherence to legislative requirements, standards of sound business practices, credit union policies, procedures, articles and by-laws.</td>
<td>Definition: the function within a member institution that performs an in-depth and meaningful analysis of operational results and effective timely reports to board and management to support and/or effect strategic and business decisions.</td>
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<tr>
<td><strong>HUMAN RESOURCES</strong></td>
<td><strong>INTERNAL CONTROLS</strong></td>
</tr>
<tr>
<td>Definition: measures taken to safeguard assets and human resources.</td>
<td>Definition: Ensuring business operations are planned, authorized, undertaken properly and managed.</td>
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<td>Considerations: ● review board workbook for compliance with by-law #5 ● review scope &amp; mandate of the committees of the board ● board resolution ● adequacy of policies</td>
<td>Considerations: ● contents of management letter ● report under S172 of the Act ● AFS, engagement letter ● internal audit reports ● accountability ● auditor turnover (tenders) ● ad hoc third party/consultant reviews</td>
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<td>GOVERNANCE</td>
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<tr>
<td></td>
<td>BOARD OF DIRECTORS</td>
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</tbody>
</table>
| MORTGAGE LENDING           | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above |
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| COMMERCIAL LENDING         | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above |
| Definition: extending money to a member or entity for business purposes where business income is the primary source of repayment. |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |
| AGRICULTURAL LENDING       | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above |
| Definition: extending money to a member or entity for the purpose of farming where the farming income is the primary source of repayment. |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |
| STRATEGIC MANAGEMENT       | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above |
| Definition: suitable capacity and the skills needed to achieve business strategy and plans. |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |
| WEALTH MANAGEMENT          | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above |
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| TECHNOLOGY                 | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above |
| Definition: managing business and providing reports on operations through people, information technology infrastructure, application systems, facilities, data and information. |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |
| SERVICE DELIVERY           | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above |
| Definition: offering financial products and services. |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |
| OTHER                      | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above | Considerations:  
Same as above |
| Definition: any activity deemed to be significant to a specific credit union and does not fit in any of the above |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |                                                                 |
OVERALL SUMMARY OF RISK

(Briefly summarize the credit union’s history, influencing factors re: performance, changes since last report, level of risk, services offered, delivery channels, member demographics, prominent employers of members and status of company, comment on any factors that are or could impact the financial performance and condition of the institution. Board comments of Strategic Plan & Business Plan, Outlook: where is the credit union going, future concerns of the market the credit union operates in, prospects for the economy, is risk increasing/decreasing, Comment if DICO information report filings are not on time and accurate. Is the problem chronic problem? etc. )

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>Low</th>
<th>Moderate</th>
<th>Above Average</th>
<th>High</th>
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<tbody>
<tr>
<td>Interview Date</td>
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<td>Credit Union</td>
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<td>Charter #</td>
<td>Bond</td>
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<td># of Members</td>
<td>FYE</td>
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<td>Last OSV</td>
<td>Next OSV</td>
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<tr>
<td>Last Updated</td>
<td>CEO</td>
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<tr>
<td>Head Office</td>
<td>Chair</td>
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<tr>
<td># of Branches and Location</td>
<td>Website</td>
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<tr>
<td>Affiliation</td>
<td>Software Provider</td>
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<tr>
<td>Service Delivery Channels</td>
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<tr>
<td>Loan/ Products Offered</td>
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**FINANCIAL HIGHLIGHTS**

**Comments:**

[Comment on any anomalous financial or trend information that appears to have or could have a material impact on the institution's financial condition and performance, comparison to plan. Comment on any unusual information in the strategic or business plan and its reasonableness in terms of past historical performance versus future planned targets.]

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<tr>
<td>Total Assets ($000)</td>
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<tr>
<td>Cash &amp; Inv.</td>
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<td>Deposits</td>
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<tr>
<td>Net Loans</td>
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<tr>
<td>Cash &amp; Inv (%)</td>
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<td>Loans (%)</td>
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<td>Fixed &amp; Other</td>
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<tr>
<td>Deposits(%)</td>
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<tr>
<td>Borrowings(%)</td>
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<tr>
<td>Other liabilities(%)</td>
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<tr>
<td>Equity(%)</td>
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<td>Interest Income(%)</td>
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<tr>
<td>Deposit expense (%)</td>
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<tr>
<td>Financial Margin(%)</td>
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<tr>
<td>Other Revenue(%)</td>
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<tr>
<td>Loan cost(%)</td>
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<tr>
<td>Salaries &amp; Benefits(%)</td>
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<tr>
<td>Total O.E.(%)</td>
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<tr>
<td>ROA(%)</td>
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<td>Shock test (bp)</td>
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<tr>
<td>Liquidity ratio(%)</td>
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</table>
NET RISK
The analysis for each of the following risk categories incorporates the inherent risk ratings net of the ratings for quality of risk management.

CREDIT RISK
Comments: [Credit risk arises from a borrower's inability or unwillingness to fully meet its on-and/or off-balance sheet contractual debt obligation]. Examples of issues to consider:

- authorized types and classes of credit instruments
- limits or prohibitions on credit exposures including concentration
- assessment criteria and security requirements for each authorized credit instrument
- an effective credit assessment system
- defined and prudent levels of decision making authority for approving credit exposures
- management of delinquent and impaired loans.

Potential issues: concentration risk, loan costs, delinquency, lending licence, local economy.]

MARKET RISK
Comments: [Market risk arises from changes in market rates or prices from activities in markets such as interest rates and foreign exchange, equity, commodity and real estate.] Examples of issues to consider:

- impact of foreign exchange rate and interest rate
- types of investments and market value
- marketable securities, bonds, equity and commodity
- changes in market value

STRUCTURAL RISK
Comments: [Structural risk arises from movements in interest rates and the impact from timing differences in the repricing of on and off-balance sheet assets and liabilities as they mature (fixes rate instruments) or are contractually repriced (variable rate instruments). Examples of issues to consider:

- Mix and maturity of investments
- Variable rate assets vs. fixed rate
- Pricing

LIQUIDITY RISK
Comments: [Liquidity risk arises from a member institution's inability to provide cash or otherwise obtain the necessary funds, either by increasing liabilities or converting assets, to meet its on and off-balance sheet obligations as they come due without incurring unacceptable losses or excess funding costs.] Examples of issues to consider:

- Regulatory and operational obligations
- Maturity of investments, deposits
- Line of credit, borrowing facilities
OPERATIONAL RISK

Comments: [Operational risk arises from problems in the performance of business functions or processes that can result from deficiencies in internal controls or processes, technology failures, human errors or dishonesty, and natural catastrophes]. Examples of issues to consider:

- defined and prudent levels of decision-making authority
- the security and operation of a management information system
- technology development and maintenance
- safeguarding of the institution's premises, assets and records of financial and other key information
- disaster recovery and business continuity plans
- outsourcing of services
- monitoring controls

STRATEGIC RISK

Comments: [Strategic risk arises from a member institution's inability to develop and implement proactive, appropriate business strategies, plans, decision-making, resource allocation and its inability to adapt to changes in the business environment]. Examples of issues to consider:

- New product development
- Annual short & long term objectives
- Continuity of business & service to members

REGIONAL MANAGER COMMENTS

[Comment on any operational area where high risk exists and MI's plans to address. Any other pertinent information not included in the above.]

ACTION PLAN

Comments: [Note any required meetings, action plans, including follow up for any information that may be required. Detail responsibility and deadline for action.]
Appendix J

Capital

Role of Capital: Capital is a source of financial support to protect an institution against unexpected losses, and is, therefore, a key contributor to the safety and soundness. Capital management is the on-going process of raising and maintaining capital at levels sufficient to support planned operations. For complex institutions, it also involves allocation of capital to recognize the level of risk in its various activities. The assessment is made in the context of the nature, scope, complexity, and risk profile of an institution.

Adequacy of Capital: The following statements describe the rating categories used in assessing capital adequacy and capital management policies and practices of an institution. Capital adequacy includes both the level and quality of capital. The assessment is made in the context of the nature, scope, complexity, and risk profile of an institution.

Strong: Capital adequacy is strong for the nature, scope, complexity, and risk profile of the institution, and meets DICO's target levels. The trend in capital adequacy over the next 12 months is expected to remain positive. Capital management policies and practices are superior to generally accepted industry practices.

Acceptable: Capital adequacy is appropriate for the nature, scope, complexity, and risk profile on the institution and meets DICO's target levels. The trend in capital adequacy over the next 12 months is expected to remain positive. Capital management policies and practices meet generally accepted industry practices.

Needs Improvement: Capital adequacy is not always appropriate for the nature, scope, complexity, and risk profile of the institution and, although meeting minimum regulatory requirements, may not meet, or is trending below DICO's target levels. The trend in capital adequacy over the next 12 months is expected to remain uncertain. Capital management policies and practices may not meet generally acceptable industry practices.

Weak: Capital adequacy is inappropriate for the nature, scope, complexity, and risk profile of the institution and does not meet, or marginally meets minimum regulatory capital requirements. The trend in capital adequacy over the next 12 months is expected to remain negative. Capital management policies and practices do not meet generally accepted industry practices.
Appendix K

Earnings

Role of Earnings: Earnings absorb normal and expected losses in a given period and provide a source of financial support by contributing to the institution's internal generation of capital and its ability to access capital externally.

Earnings Performance: The following statements describe the rating categories used in assessing an institution's earnings and its ability to continue to generate earnings required to ensure its long-term viability. The adequacy of an institution's earnings will be evaluated in the context of the nature, scope, complexity, and risk profile of the institution. The evaluation considers quality, quantity and volatility of earnings.

Strong: The institution has consistent earnings performance, producing returns that significantly contribute to its long-term viability, and there is no undue reliance on non-recurring sources of income to enhance earnings. The earnings outlook for the next 12 months continues to be positive.

Acceptable: The institution has satisfactory earnings performance, producing returns needed to ensure its long-term viability, and there is no undue reliance on non-recurring sources of income to enhance earnings. Although there is some exposure to earnings volatility, the outlook for the next 12 months remains positive.

Needs Improvement: The institution has inconsistent earnings performance, with returns that may, at times, be inadequate to ensure its long-term viability. It may occasionally depend on non-recurring sources of income to show a profit. The earnings outlook for the next 12 months is uncertain.

Weak: The institution has consistently recorded operating losses or earnings that are insufficient to ensure its long-term viability. It may be heavily dependent on non-recurring sources of income to show a profit. The earnings outlook for the next 12 months is expected to remain negative.
Appendix L

Composite Risk Rating

Definition of Composite Risk: The Composite Risk Rating is an assessment of the institution's overall risk profile, after considering the impact of capital and earnings on its Overall Net Risk. It reflects DICO's assessment of the safety and soundness of the institution.

An institution's Composite Risk Rating is assessed as low, low moderate, moderate, above average, or high, with the direction of change assessed as decreasing, stable or increasing for a specified time frame, depending on the institution's circumstances, and the business and economic environment.

Low Composite Risk: A strong, well-managed institution. The combination of its overall net risk and its capital and earnings makes the institution resilient to most adverse business and economic conditions without materially affecting its risk profile. Its performance has been consistently good, with most key indicators in excess of industry norms, allowing it ready access to additional capital. Any supervisory concerns have a minor effect on its risk profile and can be addressed in a routine manner.

Normally, an institution in this category would have a low overall net risk coupled with acceptable capital and earnings, or a moderate overall net risk coupled with strong capital and earnings. Other combinations may be possible depending on the circumstances of the institution.

Moderate Composite Risk: A sound, generally well-managed institution. The combination of its overall net risk and its capital and earnings makes the institution resilient to normal adverse business and economic conditions without materially affecting its risk profile. The institution's performance is satisfactory, with key indicators generally comparable to industry norms, allowing it reasonable access to additional capital. Supervisory concerns are within the institution's ability to address.
Normally, an institution in this category would have moderate overall net risk coupled with acceptable capital and earnings, or low overall net risk coupled with capital and earnings that need improvement. Other combinations may be possible depending on the circumstances of the institution.

**Moderate High Composite Risk:** The institution has issues that indicate an early warning or that could lead to a risk to its financial viability. One or more of the following conditions are present. The combination of its overall net risk and its capital and earnings makes the institution vulnerable to adverse business and economic conditions. Its performance is unsatisfactory or deteriorating, with some key indicators at or marginally below industry norms, impairing its ability to raise additional capital. The institution has issues in its risk management that, although not serious enough to present an immediate threat to financial viability or solvency, could deteriorate into serious problems if not addressed promptly.

Normally, an institution in this category would have above average overall net risk, which is not sufficiently mitigated by capital and earnings, or moderate overall net risk coupled with capital and earnings that need improvement. Other combinations may be possible depending on the circumstances of the institution.

**High Composite Risk:**

The institution has serious safety and soundness concerns. One or more the following conditions are present. The combination of its overall net risk and its capital and earnings is such that the institution is vulnerable to most adverse business and economic conditions, posing a serious threat to its financial viability or solvency unless effective corrective action is implemented promptly. Its performance is poor, with most key indicators below industry norms, seriously impairing its ability to access additional capital.

Normally, an institution in this category would have high overall net risk, which is not sufficiently mitigated by capital and earnings, or above average overall net risk coupled with capital and earnings that need improvement. Other combinations may be possible depending on the circumstances of the institution.